

DP06

International Trade Finance

9 OCTOBER 2000

1. Time allowed : Three (3) hours
2. Total number of questions : Seven (7) questions
3. Number of questions to be answered : Five (5) questions of which at least two (2) must be from Part A [20 marks each]
4. Candidates must obtain a minimum of 16 marks in Part A as well as pass the paper as a whole.
5. Begin each answer to a new question on a fresh page.
6. Answer **all** questions in **English**.

PART A

ANSWER AT LEAST TWO (2) QUESTIONS

1. (a) Encik Murat, Director of Reliable Electrical Fan Sdn Bhd received an order to ship 1,000 boxes of electrical fans to Senegal.

Encik Murat is aware that he has to consider the bank and country risks and, therefore, requests for an irrevocable confirmed letter of credit to be issued in Reliable Electrical Fan Sdn Bhd's favour. Encik Murat's bank has confirmed the letter of credit. Encik Murat also realises that he is required to obtain a certificate of inspection, which is to be issued by an engineer representing the buyer, before shipment.

When the fans were ready for shipment, Encik Murat's agent in Senegal, however, informs him that the buyer and the issuing bank in Senegal are in financial difficulties.

Required:

- (i) Identify **four** possible circumstances that can lead to non-payment in the above transaction. [4]
- (ii) Explain under which circumstances mentioned in (a)(i) above, would Encik Murat still be able to receive payment, under the irrevocable confirmed letter of credit. [6]
- (b) How can a buyer reduce the performance risk of a supplier under an irrevocable confirmed letter of credit? [4]
- (c) The expiry date and latest shipment date on an irrevocable confirmed letter of credit is dated 9 September 2000 (Sunday). The documents are presented to your bank on 10 September 2000 (Monday), with the bill of lading dated 10 September 2000. Are these documents acceptable to you? Briefly explain your answer. [6]

(Total:20 marks)

2. (a) Bintang Permata Sdn Bhd, your bank's customer, has an opportunity to quote a large export order to Star Ltd, a company based in London, United Kingdom. Although Bintang Permata Sdn Bhd normally trades in irrevocable confirmed usance letter of credit terms only, its Managing Director, Mr Leong, wishes to consider **two** other options of obtaining payment. The **two** options are:

- For Bintang Permata Sdn Bhd to draw a bill of exchange at **30** days sight and send the bill directly to Star Ltd's banker in London.
- For Star Ltd to send Bintang Permata Sdn Bhd a promissory note duly avalised by Star Ltd's banker prior to shipment. Mr Leong would then ask your bank to collect the proceeds of the promissory note at maturity as an outward bill for collection.

Required:

- (i) List and explain the advantages and disadvantages of the **two** options listed above in comparison with Bintang Permata Sdn Bhd's (exporter) usual requirement of the irrevocable confirmed usance letter of credit terms. [10]
- (ii) How would the procedure to obtain payment after shipment differ in the **two** options above? [6]
- (b) Documents can be released against acceptance (D/A) and against payment (D/P). Which of these methods are considered more secured from the point of view of the financing bank? Briefly explain your answer. [4]

(Total:20 marks)

3. Nasal Lockyard Bhd offers a wide range of services to the shipping world, including ship building on a standard ship delivery contract. This contract entails building, provisioning and delivering the vessel to the owner or agent at a named port. Nasal Lockyard Bhd has a long and satisfactory banking relationship with your bank.

The directors of Nasal Lockyard Bhd are discussing a potential contract with a German company, German Marine Inc, a new owner of a vessel, to build, provision and deliver the vessel to German Marine Inc in Frankfurt.

The payment terms being considered are:

- 30% payable on signing of contract as an advance payment.
- 35% payable at least **10** days after the vessel has sailed for Frankfurt.
- 35% payable after delivery of the vessel to German Marine Inc.

Mr Rukh Khan, the Managing Director of Nasal Lockyard Bhd, calls to see you to discuss this contract. He wishes to ensure that a secured method of payment is used so that, German Marine Inc fulfils the contract terms and Nasal Lockyard Bhd obtains all payments. However, Mr Rukh Khan is aware that German Marine Inc will require some form of undertaking in respect of the 30% advance payment.

Required:

- (a) (i) Name the parties involved in this transaction. [2]
- (ii) State the banking instrument which could be used on behalf of German Marine Inc and would give Nasal Lockyard Bhd the security it is seeking in respect of all payments. [1]
- (iii) Explain how Nasal Lockyard Bhd, could claim and obtain all payments using this banking instrument mentioned in (a)(ii). [6]
- (b) (i) State and explain the banking instrument, which would satisfy the requirement of German Marine Inc in relation to the advance payment, in conjunction with (a)(ii). [3]
- (ii) Briefly explain the risks which your bank and Nasal Lockyard Bhd would face under (b)(i). [2]
- (iii) State the conditions which could be included in the banking instrument mentioned in (b)(i), to minimise your bank's and Nasal Lockyard Bhd's liabilities. [6]
- (Total:20 marks)

PART B

4. Your bank has been nominated as the paying bank under a letter of credit, where the beneficiary is your customer. The letter of credit calls for the following documents:

- A multimodal transport document, evidencing transport of goods from Port Kelang to Hamburg.
- An insurance policy, covering all risk.

The other details in the letter of credit are:

- Expiry date and latest shipment date is 24 February 2000 (Sunday).
- Description of goods: **500**tons of Grade 1 foil, priced at USD100 per ton.
- Amount: Not to exceed USD52,500.
- Transshipment: Not allowed.

As a Trade Finance Officer at your bank, you note the following when you received the documents:

- The combined transport documents describes the goods as **525**tons of foil, and shows the destination as Hamburg. The documents indicate that transshipment may take place.
- The invoice is for USD52,500, and describes the goods as **525**tons of foil.

- The insurance documents consist of a broker's cover note with a clause that states all risks are covered but certain risks are excluded.
- The documents are presented to you on Monday, 25 February 2000.

Required:

- (a) Are these documents acceptable to you and will you negotiate the letter of credit? You are required to make references to the Articles in the ICC Uniform Customs and Practice for Documentary Credits (UCP 500). [14]
- (b) If these documents are not acceptable, what action will you take? [6]
(Total:20 marks)

5. Waja Sdn Bhd, your bank's valued customer, imports industrial machinery from Japan. The invoices are usually expressed in USD, and are accompanied by a collection order and bills of exchange drawn and payable at **60** days after date of invoice. No documents of title are attached to the collection order. The remitting bank's instruction is to release the document against acceptance (D/A). However, no protest instruction was given. You have presented the documents to Waja Sdn Bhd.

In the past, Waja Sdn Bhd has always delayed in returning the accepted bills of exchange and do not pay the bills promptly. Due to your bank's valued relationship with Waja Sdn Bhd, you do not wish to apply any pressure on Waja Sdn Bhd with regard to these collections.

You have now received a claim for **one**-month interest from the remitting bank, which the Japanese suppliers claim is payable because of Waja Sdn Bhd's failure to pay the most recent accepted bill of exchange on maturity.

Required:

Write brief notes on the following:

- (a) The prudent action your bank should take concerning the recent presentation under the ICC Uniform Rules for Collections (URC), Publication No. 522. [6]
- (b) Your bank's position regarding the bills of exchange for acceptance in circumstances similar to those described above, under the Bills of Exchange Act 1949. [6]
- (c) The position of your bank and Waja Sdn Bhd in connection with the claim by the Japanese suppliers. [4]
- (d) The specific instruction that is acceptable under the URC, which could be incorporated in future collection orders to encourage Waja Sdn Bhd to pay the bills promptly. [4]
(Total:20 marks)

6. Wilson Tan of Gaylee Sdn Bhd, your bank's valued customer, is a jellyfish dealer. He buys processed jellyfish from an Australian supplier and sells it to buyers in Taiwan. The Australian supplier generally requires a letter of credit as the method of payment. Wilson Tan has been able to arrange for the Taiwanese buyer to establish a transferable irrevocable letter of credit in Gaylee Sdn Bhd's favour. Some of the terms in the documentary credit are as follows:

Amount	:	Approximately AUD1,000,000
Expiry date	:	10 October 2000 in Malaysia
Shipment covering	:	Approximately 100,000 packets of jellyfish
Latest shipment date	:	30 September 2000
Shipment	:	Australia to Kaohsiung

On 1 August 2000, you were asked to transfer 75% of the letter of credit value in favour of a second beneficiary in Australia. As Wilson is uncertain as to when the shipment will be effected by the Australian supplier, he asks you to cover his potential earning of AUD250,000 with a 3-month option forward, based on the following rates:

1 August 2000	Spot AUD2.1960	AUD2.1800
1-month forward	0.36 cents discount	0.41 cents discount
2-month forward	1.18 cents discount	1.23 cents discount
3-month forward	2.40 cents discount	2.45 cents discount
2 October 2000	Spot AUD2.2155	AUD2.1955

On 2 October 2000, you receive the documents from the Australian bank covering a shipment valued at AUD787,500. Wilson substitutes the invoices to allow claim for the full value of the goods shipped and increases the value of his invoice by the exact percentage increased by the Australian supplier. This claim is within the available amount under the letter of credit.

Required:

- (a) Calculate the proceed in Malaysian Ringgit that will be credited to Gaylee Sdn Bhd's account. Show your workings. [8]
- (b) What do the terms "spot rate" and "forward rate" mean? [4]
- (c) State and explain the international rule governing the above transaction. [8]
(Total:20 marks)
7. (a) What is meant by an open account method of payment? [3]
- (b) What formality is necessary to ensure that a bill of lading, which shows consignee as "to order", can be transferred by delivery? [2]
- (c) An exporter dispatches goods by sea and is offered a choice of bills of lading or seaway bills by a carrier. Which transport document should the exporter choose if he sells on open account terms? [2]
- (d) An importer is named as a consignee on an airway bill. The goods have now arrived at the importer's local airport, but the airway bill has gone astray. Will this be a problem for the importer? Explain your answer. [3]
- (e) List **three** basic functions of a bill of lading. [3]
- (f) What are the consequences if the collection instructions are not accompanied by a full set of bills of lading? [4]
- (g) What is meant by the term "clean" bill of lading? [3]
(Total:20 marks)

OUTLINE ANSWERS

PART A

Question 1

The most popular question attempted by all the candidates was on risks relating to a confirmed letter of credit. However, only a handful of candidates managed to obtain a pass for this question. Most candidates were able to identify the risk but were unable to elaborate on it.

1. (a) (i)
 - Failure of the applicant to take ownership of the goods upon arrival.
 - Failure of the issuing bank to honor the credit.
 - Failure to fulfill the credit terms by Encik Murat, as he is not able to obtain and submit the Inspection Certificate for negotiation.
 - Failure to fulfill the commercial contract.
- (ii) Banks are concerned with documents only. They will not be bound by the credit if the documents are incorrect because the documents are part of the credit terms. Banks are not concerned with the commercial contract thus failure to fulfill the credit terms is eliminated.
- (b) (i) Take status inquiry on the beneficiary.
- (ii) Call for a third party inspection document.
- (iii) See if the beneficiary will agree to a 80% payment under a letter of credit and a remaining 20% by an open account.
- (iv) Request for a performance guarantee.
- (c) No. When the expiry date of a credit is on a non-business day, the documents can only be presented on the next business day. However, the transport documents must still be evidenced that the goods were taken in charge on or before the expiry date. (Article 44, UCP). Thus, there is a "late shipment" discrepancy in the documents.

Question 2

This question tested candidates' understanding on the advantages and disadvantages of dealing with collection basis – Uniform Rules for Collections (URC) guidelines. They should have emphasised on this rather than explaining on the advantages and disadvantages of letter of credit transactions. Majority were confused between the two guidelines – URC and Uniform Customs Practice (UCP).

2. (a) (i) Advantages and disadvantages of the exporter remitting the bill directly to the overseas collecting bank, in comparison to an irrevocable letter of credit.
- Advantages:
- The exporter will pay reduced bank charges because he cuts out the Malaysian remitting bank by sending the collection directly and because there is no need for the bank to make a careful check of the documents.
 - The exporter decides what documents to send without having to refer to the conditions of the letter of credit.
 - Time will be saved as the documents can be remitted directly to the collecting bank without the need for a Malaysian remitting bank to be involved.
 - They can make the deal more attractive to the buyer as the buyer will be saved by:-
 - reduced cost as the buyer does not need to incur LC issuance commission.
 - less administration which relates to issuance of an LC.
 - does not affect his banking facilities.

Disadvantages:

- Greater credit risk, as there is conditional bank guarantee for the payment. The buyer may refuse to accept the bill of exchange or he may refuse to pay at maturity.
- The direct collection method will mean that there is no checking of the documents by a Malaysian bank. Thus any documentary problems will only come to the exporters knowledge once the documents have reached the UK bank.
- All follow-up correspondences will have to be done by the exporter himself, as opposed to his bank.
- It may not be possible to discount this collection, whereas LCs can usually be used to provide post-shipment finance.

Advantages and disadvantages of avalised promissory notes as opposed to irrevocable letter of credit to the exporter.

Advantages:

- Since the promissory notes are to be received before shipment, the notes could be discounted (forfeited) to raise a pre-shipment financing. A documentary credit can normally only raise a post-shipment financing, since the required documents are only available after shipment has been done, unless the exporter has made prior credit arrangement with the banker for this purpose with facilities like Packing Credit, ECR Pre-shipment etc.
- The aval of the UK bank means that payment is unconditionally guaranteed by that bank on due date. Thus, provided the bank is sound the exporter can be sure of payment.
- Bank collection charges will be lower than the LC because there is no need for a careful examination of the documents.

Disadvantages:

- This method is less acceptable than LC from the buyer's point of view. There is no "documentary protection" to ensure receipt of the correct goods, the aval will tie up facilities with the UK bank and the commitment fee may be greater than for the LC.

(ii) Difference of procedure to obtain payment after shipment.

Collection:

- A Malaysian bank is not involved in handling the documents. Once the shipping documents are ready, the exporter will send the documents for collection directly to the UK bank.
- The UK bank will present the documents and bill of exchange to Star Ltd for acceptance.
- The UK bank will hold the bill of exchange until maturity and seek Star Ltd's authority to make payment.
- The UK bank is acting as the Malaysian exporter's agent in collecting payment from Star Ltd.
- Subsequent correspondence on the collection including advice of payment would be sent directly to the Malaysian exporter.

Promissory Note:

- The Malaysian bank could collect the proceeds of the avalised bill at maturity.
- With the promissory note, acceptance and avalisation have already been achieved.
- The promissory note will be held by the exporter and send for collection in plenty of time before maturity.
- With the avalised promissory note, the UK bank has guaranteed payment and must pay at maturity date whether it can recover from Star Ltd or not.
- There will be an advice of payment and that will be sent via the Malaysian bank.

- (b) With D/P bills, the bank retains control of the goods until payment, provided full sets of document of title are submitted. With D/A, control of the goods is lost the moment the importer accepts the bill of exchange.

Question 3

This question tested candidates' understanding on the use of the letter of credit for specific purposes and how other trade instruments can be used to complete a deal. Many candidates attempted this question, but only a small number managed to pass this question. Only candidates who were able to think beyond the scope of normal letter of credit transactions were able to identify and provide specific answers. Many failed because they were unable to apply the concept of trade instruments to practical situations.

3. (a) (i) Applicant – German Marine Inc
Issuing bank – A bank in Germany
Advising/confirming/paying bank – Your bank
Beneficiary – Nasal Lockyard Bhd
- (ii) The document required is a confirmed irrevocable letter of credit, which should be confirmed by a Malaysian bank. This letter of credit provides a guarantee by two banks that Nasal Lockyard Bhd will be paid, provided the documents are submitted at the right time.
- (iii) The confirmed irrevocable letter of credit issued by the German bank will guarantee payment in 3 stages, provided the correct documents are presented. Our bank will make payment, being the confirming and nominated paying bank against presentation of the stipulated documents. Our bank will then be guaranteed reimbursement by the issuing bank. The three stages are:
- 30% against copy of signed commercial contract, plus an advance payment guarantee issued by our bank in favour of German Marine Inc.
 - 35% against a document signed by the harbour master stating that the vessel has sailed for Frankfurt as its destination. (Payment due 10 days after the date of shipment)
 - 35% against a receipt, signed by agents of German Marine Inc., stating that the vessel has arrived in Frankfurt.
- (b) (i) German Marine Inc. will require an advance payment guarantee issued by our bank. Under the advance payment guarantee, our bank will undertake to refund the advance payment to German Marine Inc., if the services subsequently turn out to be defective.
- (ii) Risks under the Advance Payment guarantee
The liability of Nasal Lockyard Sdn Bhd under the advance payment guarantee is that they are liable to refund the money if the vessel is not delivered in accordance with the contract. Nasal Lockyard Sdn Bhd will have to sign a counter indemnity giving our bank the right to debit their account for any payments made under the guarantee. The liability of our bank is that it must meet any valid claims under the guarantee, irrespective of whether Nasal Lockyard Sdn Bhd has funds to meet the obligation under their counter indemnity.
- (iii) Safeguard under Advance Payment guarantee
- The guarantee must state that it is subject to Malaysian law and it must include an expiry date. It must be in a standard form as approved by our bank.
 - The guarantee should state that it would become operative only if a confirmed irrevocable letter of credit is issued in favour of Nasal Lockyard Sdn Bhd.
 - The guarantee should contain an operative clause, making it effective only on receipt of advance payment by Nasal Lockyard Sdn Bhd. In other words, proof of first having made the payment must be shown before German Marine Inc. can claim on the guarantee, if need be.
 - The guarantee should contain a reduction clause stating that the amount due can be written down in line with the performance of the contract.

- It may be possible to stipulate that an arbitration certificate be submitted to back up any claim. However, this may not be acceptable to German Marine Inc.

Notes:

Do not refer to bill of lading, as the good (vessel) is not being exported.

Some banks may prefer to issue a standby-letter of credit in lieu of the advance payment guarantee.

A red clause credit is not valid as an alternative to advance payment guarantee as red clause credit does not guarantee the refund of the advance payment should Nasal Lockyard Sdn Bhd default.

Question 4

Candidates were tested on their understanding on documents checking and applying the Uniform Customs and Practice for Documentary Credits (UCP 500) to their arguments. Candidates who memorised the UCP rules were able to obtain good marks. However, besides memorising, understanding the application of the rule is also important.

4. (a) (i) Article 26a - indicates that a combined transport document is equivalent to a multimodal transport document. Therefore it is acceptable.
- (ii) Article 37 - The description of the goods on all documents except the invoice need only be in general terms not inconsistent with the credit. Even though all the documents are acceptable, the invoice is not, as it is inconsistent with the credit. The invoice does not indicate the goods as "Grade 1".
- (iii) Article 26b - Documents that indicate that transshipment may take place are acceptable, even if credit forbids transshipment, provided one of the document covers the whole journey. Therefore it is acceptable.
- (iv) Article 39 - Permits a 5% tolerance in amounts of goods, where goods are described by weight or volume. The monetary maximum has not been exceeded. Therefore the document is acceptable.
- (v) Article 44 - The documents can be presented on the next business day when the expiry date is a non-business day. However, the combined transport document must indicate that the carrier received the goods on February 24, 2000. The non-business day aspect refers only to the presentation of document. Therefore, it is acceptable, provided the combined transport document is in order.
- (vi) Article 36 - States that for insurance documents, the clause "All Risk" is acceptable even if the insurance document indicates that certain risk is not covered.
- (vii) Article 34 - Broker's cover note is not acceptable unless specifically authorized.
- (b) Action to be taken:
- (i) Invoice – This is the document that the beneficiary prepares. Therefore, he should be able to prepare a new set.
- (ii) Broker's cover note – See if the policy can be obtained. The beneficiary must contact the brokers as a matter of urgency. If the documents can be amended locally on that day, all will be well. If not, cable the issuing bank for permission to pay despite the broker's cover note being submitted. Or send the documents to the issuing bank for payment. If the customer is credit-worthy, pay against the beneficiary indemnity promising reimbursement if the issuing bank declines to pay.

Question 5

This question examined candidates' understanding on the rules and regulations governing collections under the Uniform Rules for Collections (URC), ICC 522. Some candidates were able to apply some logic and managed to pass. However, others were too elaborative and went totally out of point.

5. (a) In accordance with Article of URC, the bank should act in good faith and exercise reasonable care at all times. This means that our bank should have acted in accordance with the instruction contained in the collection order. We should ensure that documents received under the collection order are disposed off in accordance with those instructions.

In accordance with Article 9, the bank should have ensured that where an acceptance was called for, the bill of exchange was accepted. Presentations should have been made and payment claimed not later than the appropriate maturity date, i.e. 60 days after the date of the invoice.

In accordance with Article 17, the collection order should have given specific instructions concerning protest but as the protest instructions were not given, the bank was under no obligation to have the bill of exchange protested for non-payment or non-acceptance (or noted). This is the general rule accepted in many parts of the world and embodied in the above article.

- (b) Our bank's position under the Malaysian banking practices may be somewhat described above. However, our bank did not exercise reasonable care and it could be claimed as not acting in good faith and is negligent. Our bank has ignored in some measures part of the terms laid down by the URC and has not acted in accordance with normal Malaysian banking practices. (Having said that, the collection order was incomplete and our bank has no legal obligation to have the bill protested/noted).

In accordance with the standard Malaysian banking practices, our bank has not exercised care and should have noted/protested the bill of exchange to obtain protection offered under the Bill of Exchange Act for the benefit of the remitting bank and its customer. It may be difficult to give an appropriate satisfactory answer to the remitting bank for the delays in remitting payment other than to claim that full protest or noting instruction was not given. This might be regarded as a lame excuse. However, as documents of title were not attached to the bill of exchange, this method of selling and obtaining payment is equivalent to an open account sale.

- (c) As far as claim of interest is concerned, a collection order must clearly state if interest is to be collected, and indicate that it is mandatory instruction (Article 21).

This claim for interest is principally for overdue interest from the date of maturity until the date of claim; and this is outside the term of reference covered by the URC. Morally, Waja Sdn Bhd is liable to pay for the interest claim, but legally any such claim should have been made under the terms of the commercial contract if it covers the interest claims. Waja Sdn Bhd can ignore the claim unless a mandatory instruction is included in the invoice, which in this case is difficult to include on the bank's collection order. In commercial practices many invoices would not state the overdue interest might be claimed in the event of a delay in payment.

In this circumstance, it is a matter to be settled between the banks as correspondent and it is for them to settle the claim amicably.

Most banks would refuse to pay interest in this circumstance but such refusal might jeopardize the relationship between the two banks. Because our bank has been negligent and has not exercised reasonable care, it might be prudent for my bank to pay the claim to the Japanese bank. It is impossible to lay down a hard and fast rule here.

- (d) The change in instruction, which might assist the supplier in Japan, must be stated clearly in accordance with the "instructions" covered by URC and Malaysian banking practices. This would be helpful for the Japanese bank to give specific instructions with regard to protest and/or noting instructions in the event of dishonour either upon presentation or payment.

In the event of a change of instruction, my bank would clearly have to act in accordance with the Malaysian banking practices and protest or note the bills of exchange within 24 hours of the dishonour, in order to obtain the full protection of the Bills of Exchange Act (Article 51). Further, the bank would also be acting in accordance with the URC (Article 17).

If there is an intention to claim in respect of a delay in payment or otherwise, this must be stated on the invoice and probably the bill of exchange, as well as in the collection order.

Question 6

The least attempted question was on foreign exchange and transferable letter of credit. Using a simple calculation, candidates were required to advise their customers on how to maximise profit in a foreign exchange transaction. None of the candidates were able to calculate the proceeds accurately. Most of them were confused with the international rule governing the foreign exchange transaction.

6	(a)	<u>Today August 1, 2000</u>			
		Forward contract 1-3 month option buy arranged.			
		Spot	2.1800	Spot	2.1800
		Less: Discount	<u>0.0041</u>	Less: Discount	<u>0.0245</u>
			<u>2.1759</u>		<u>2.1555</u>

The bank chooses the 3-month rate: 2.1555

October 2, 2000

Australian supplier increases invoice value - AUD787,500 / 750,000 equals to 5%

Therefore, Gaylee's invoice value is AUD1,050,000.

The actual profit is AUD1,050,000 less AUD787,500 = AUD262,500.

Converted as follows:

AUD250,000 x 2.1555 =	RM538,875.00
AUD12,500 x 2.1955 =	<u>RM 27,443.75</u>
	<u>RM511,431.25</u>

(b) **Spot rate**

The rate of exchange that is quoted for an immediate foreign currency transaction. The currency transfer takes place immediately and the bank entries, i.e. to debit or credit the customer account and to credit or debit the banks sundry account are posted on the same day. In relation to the bank-to-bank transaction, although the spot rate is a rate that is applied to the currency transaction today, settlement between the two banks takes place two working days in the future.

Forward rate

The rate of exchange that is quoted for a future foreign exchange transaction, i.e. tomorrow and onwards.

With currencies that are heavily traded and relatively stable (such as the US Dollar) forwards in periods of years can be obtained from the banks. In contrast, with the more exotic currencies (such as Thai Baht), the maximum period can be obtained for a forward rate is much shorter.

(c) **Uniform Customs and Practice**

- (i) Rules are UCP 500, ICC Publication 1993.
- (ii) The rules cover all aspect except those expressly covered by the terms of the credit.
- (iii) All authorities stipulates "Subject to UCP 500, ICC 1993".
- (iv) Transferable credit is covered under Article 48.
- (v) Credit can only be transferred if it is expressly stated to be transferable.
- (vi) First beneficiary can only request his bank to transfer the credit. His bank is not obliged to do so.

- (vii) First beneficiary must pay all charges. His bank need not effect the transfer until all charges are paid.
- (viii) The credit can only be transferred on the terms and conditions specified in the original credit except for lower amount, lower price unit, earlier expiry date/date of shipment.
- (ix) The first beneficiary can call for the second beneficiary to provide full amount of insurance, based on the price paid by the applicant.
- (x) The credit can be transferred once only.

Question 7

Another popular question amongst candidates was on the various documents used in international trade. This was a straightforward question, which required no application and many candidates scored above 80% of the overall marks for this question.

7. (a) When using the term “open account” trade arrangement, the exporter will usually send the underlying documents directly to the importer (rather than through the banking system) once the goods has been shipped. The documents may or may not include the documents of title, such as the bills of lading. The documents will usually give the indication of the agreement regarding the date of payment.
- The “open account” trade arrangement tends to be used where the respective parties have been trading with each other for many years. The trust has been built between the parties. Thus, the likelihood of default is remote. It is also entered into between a parent and its subsidiary companies that are located in different countries.
- (b) The shipper (exporter) must endorse at the back of the bill of lading.
- (c) He should choose seaway bill. Since he is dealing on “open account” terms, the seaway bill is an ideal document to use where the control over the goods is not a requirement of the exporter. The goods are being sold to a counter party who he has trusted. Under any circumstances when the goods have arrived before the documents, the buyer can still claim the goods. This is not possible when a bill of lading is used.
- (d) There is no problem as the airline will advise the importer of the arrival of the goods, and he will be able to collect them, provided he can produce identification.
- (e) The basic functions of a bill of lading are:
- (i) To act as a receipt for the goods
 - (ii) To show evidence of the contract of carriage
 - (iii) To act as a quasi negotiable documents
 - (iv) To act as a document of title to the goods
- (f) In the absence of a full set of bill of lading, the drawee may dishonour the collection because there is no guarantee that he will be able to obtain the goods.
- (g) A clean bill of lading is a bill of lading that does not contain any superimposed clause on the face of it, which expressly declares the defective condition of the goods.